



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Dear Member of Congress:

The Advisory Committee on Veterans Business Affairs is pleased to submit this report which underscores the need for continued support of the program to promote veteran-owned small businesses.

In recent years, increasing attention has been called to the entrepreneurial needs of America's veterans, particularly those veterans who have service-connected disabilities.

In 1999 Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act established the Small Business Administration Advisory Committee on Veterans Business Affairs to serve as an independent source of advice and policy recommendations to the Administrator of the Small Business Administration, the Associate Administrator for Veterans Business Development, the Congress, the President and other US Policy Makers. While 99.7 percent of all employer firms are small, they only receive about 23 percent of direct federal procurement dollars and almost 40 percent of subcontracting dollars.

In August 2003, about 2.2 million of our nation's 23.7 million veterans reported having a service-connected disabilityⁱ. By December of that year male veterans' self-employment rates were higher than those of any other non-veteran group, reaching 13.7 percent. This figure is up 6.2% from just 3 years priorⁱⁱ and this statistic doesn't even include woman or minority business owners who are veterans.

More than one-third of both new veteran entrepreneurs and current veteran business owners have gained skills from their active duty service that were directly relevant to business ownership. Over all, about 22 percent of veterans in the U.S. are either purchasing or starting a new business or considering purchasing or starting one.

Difficulty in obtaining financing and access to useful small business programs are high on the list of problems of both new veteran entrepreneurs and current veteran business owners. A greater proportion of service-disabled veteran business owners had used veteran-specific small business programs (16.7 percent) than had veterans without service-connected disabilities (5.1 percent). This dismal percentage of assistance received is a direct correlation of assistance available to these entrepreneurs and is the exact reason additional services are required.

An investment in small business programs for veterans and service-disabled veterans is economically rational and is long overdue.

The global economy is rapidly creating a need in America for greater flexibility in its small business programs. American War Fighters are returning to our communities in record numbers. Not since Vietnam have America's Veterans experienced the soaring rates of disability we see today, highlighted by the increased number of amputees as being realized in our current War on Terror. For many of these veterans, self employment will be the only alternative to unemployment.

Public Law 106-50 was enacted in 1999. Nearly 7 years has passed since this mandate. The President of the United States, the Congress and the SBA has set orally and in writing, a series of goals and deadlines to accomplish this task and all of these deadlines and goals have been missed.

Veteran entrepreneurs are successfully self-employed at a higher rate than any other group of American citizens; according to research conducted under federal contract by The SBA's Office of Advocacy in December of 2004, yet;

- To date, no federal agency has successfully been able to reach the prime contracting goal of 3% for service-disabled veteran-owned small businesses.
- The sole SBA employee assigned to represent the veteran population in the Office of Federal Contract Assistance in 2006 was reassigned to 8(a), and the responsibility moved to the Office of Veterans Business Development. To date, this vacancy has not been assigned to a single person. There are more than 60 full time staff assigned to the SBA Office of Contract Assistance. Roughly 17 of them are assigned to the 8(a) program, 9 who work exclusively with HUBZone, and 7 who are assigned to assist Women Owned Businesses, plus approximately 30 "generalists".
- Currently, there are no training, education, capital or assistance programs available to veteran business owners, service disabled or otherwise, which offer the resources or funding of that of the SBA's 7 (j) program which is enjoyed exclusively by women and minority businesses.

Thank you for taking the time to review our report. The members of the Veterans Advisory Committee realize and accept the awesome responsibility we have as we represent more than 25 Million American veterans, their family members and business partners. We now offer you the result of a year of research, testimony and field analysis, and pray our nations policy makers realize and appreciate the value of our report.

The attached document is the Advisory Committee's FY 2006 Report for Congress and the President in accordance with Section 203(g) of PL 106-50.

Sincerely,

Dennis D. DeMolet, Chairman,

Thomas Bednarczyk, Vice Chairman

**ADVISORY COMMITTEE ON VETERANS BUSINESS AFFAIRS
FISCAL YEAR 2006**

TO

THE PRESIDENT AND CONGRESS OF THE UNITED STATES

SUBJECT

**THE ACTIVITIES OF THE COMMITTEE AND RECOMMENDATIONS FOR THE
PROMOTION OF SMALL BUSINESS CONCERNS OWNED AND
CONTROLLED BY VETERANS**

**AS REQUIRED BY
THE VETERANS ENTREPRENEURSHIP AND SMALL BUSINESS
DEVELOPMENT ACT OF 1999 [PUBLIC LAW 106-50]**

SUBMITTED THIS-DAY OF NOVEMBER 15, 2006

**By Members of
The ADVISORY COMMITTEE ON VETERANS BUSINESS AFFAIRS of the
U.S. Small Business Administration**

EXECUTIVE SUMMARY AND REPORT

The Advisory Committee on Veterans Business Affairs (Committee) submits this annual report pursuant to the Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106-50). Section 203 of the Act directs the Committee to transmit a report to the Congress and to the President on the activities of the Committee and any recommendations developed by the Committee for the promotion of small business concerns owned and controlled by veterans. This report contains detailed information relating to the activities of the Committee in FY2006, and its recommendations for the promotion of small business concerns owned and controlled by veterans.

On September 30, 2004, by operation of section 203(h) of the Veterans Entrepreneurship Act and in accordance with section 14 of FACA which requires non-discretionary advisory committees to terminate on the date provided by statute, the previous Committee terminated by operation of law.

On December 8, 2004 section 143 of the Small Business Reauthorization and Manufacturing Act of 2004, (Public Law 108-447) reauthorized the Committee by amending the Small Business Act. As a result, SBA took steps to charter a new Committee under the authority of Section 203 of the Veterans Entrepreneurship Act, and filed it with the Senate and House Small Business Committees, GSA, and the SBA Administrator. SBA also appointed members to serve on this new Committee in accordance with its Standard Operating Procedures.

Following appointment by the Administrator of SBA of a sufficient number of Committee members to conduct business, the SBA Office of Veterans Business Development facilitated and hosted the first meeting of the Committee at SBA Headquarters on September 15, 2005. Following initial discussion between newly appointed Committee members with the SBA senior staff, the Committee reviewed the history and accomplishments of the previous Committee, and began developing plans for the mission, goals and outcomes for the Committee.

Following a presentation to the Committee by the SBA Assistant Administrator of the Office of Federal Contract Assistance for Veteran Business Owners, that was created to carry out the SBA responsibilities contained in the Presidents Executive Order 13360, the Committee selected the Committee Chairman, Vice Chairman, and Secretary, entertained public comments, discussed the future creation of this annual report, established an aggressive working agenda for FY 2006, and established three functional sub-committees:

1. Procurement Sub-Committee
2. Finance Sub-Committee
3. Guard and Reserve Entrepreneurship Sub-Committee

The Procurement Sub-Committee focused on training, education and impediments detrimental to veterans being successful in the Federal contract arena. The focus of the Finance Sub-Committee concentrated on access to capital, certification and bonding and other related obstacles, which may preclude a veteran-owned small business from establishing and growing a business. Lastly, the focus of the Reserve & Guard Entrepreneurship Sub-Committee was the educating, counseling and assisting reserve and guard members who aspire to entrepreneurship and small business ownership, as well as, to those reserve and guard members trying to grow or expand their existing small business.

A fourth sub-committee was created to be responsible for developing reports and this annual report on behalf of the Advisory Committee.

Given the very extended vetting process for re-chartering the Advisory Committee, identifying and naming Committee members in FY 2005, the absence of sufficient time precluded the Committee from developing specific recommendations for Congress and the President in its fiscal year 2005 Committee Report as submitted to the Congress and the President on January 13, 2006. Since this was the second extension of this Committee which delayed its work in support of the current and aspiring veteran entrepreneur significantly, we highly recommend Congress approve a measure that makes this Committee a permanent Committee under the Small Business Administration. We recommend this action be taken within the SBA Extension Bill currently under consideration for FY 2007 and request the SBA Administrator engage Congress in crafting this recommendation into legislation immediately.

Having a single meeting in late FY 2005, the Advisory Committee identified and prioritized areas of significant interest for review and action in FY 2006:

- Adequate staffing and funding of the SBA Offices of Veterans Business Development and Office of Federal Contract Assistance for Veteran Business Owners;
- The reported inadequacy of SBA Surety Bonding levels necessary to support SDVOSB success in the federal marketplace;
- Special access to capital for veterans, service-disabled veterans and self employed members of Reserve Components of the U.S. Military;
- Improved SBA transition assistance for discharging members of the U.S. Military in their transition to civilian status;
- Exploration of changes to the GI Bill of Education to enable the use of benefits for the establishment and operation of small business concerns;

- Exploration of conducting research to determine the material effect of military service on successful small business ownership, for service-disabled veterans, for veterans, and for Reserve Component members of the US military; and,
- The extension and permanent establishment of the SBA Advisory Committee on Veterans Business Affairs.
- Expansion of veteran outreach and entrepreneurial education via private sector initiatives.

The detailed actions and recommendations of the above targeted areas as completed by this Committee in FY 2006 are contained herewith.

Introduction

The Advisory Committee is currently comprised of 13 members. These members are a diverse group of veterans, service-disabled veterans, veteran small business owners, or officials of veteran service organizations [VSO]. It is important to note that the recommendations of the Advisory Committee contained herein are the result of testimony and analysis of provided synopsis, studies or surveys by invited guests of the Committee. Moreover, the recommendations included the result of presentations to the committee by expert veterans, VSO members, and Federal officials familiar with issues facing veteran small business owners.

Sub-Committee Summary Recommendations

The Procurement Sub-Committee proposes five recommendations, which would provide meaningful assistance to the veteran-owned small business community:

1. The Surety Bond Guarantee Program bonding limits should be revised upward to \$15,000,000 for small businesses to insure their competitiveness in today's construction environment. Establish an outreach and education program for all SDVOSBs with Construction as their primary NAICS code to increase their 'bond-ability'.
2. Creation of a Certification Program for service-disabled veteran-owned small businesses.
3. Counter Agency-wide resistance to PL 108-183 by revising 13CFR 125.20 to eliminate restrictions on the award of sole source contracts to SDVOSB. The change should mirror the following paragraph which applies to 8(a). 13 CFR 124.508(c) reads "In order to be eligible to receive a sole source 8(a) contract, a firm must be a current Participant on the date of the award." (There are no other restrictions)
4. The SBA Advisory Committee on Veteran Business Affairs draft a letter to the original authors of Public Law 108-183 requesting an amendment to reflect the true intent of the Veterans Benefit Act of 2003.
5. The SBA should identify all agencies affected by the Executive Order. Assist them in developing a strategic plan and establish realistic reporting criteria. Once the information is received, disseminate this data to all agencies, Veteran Organizations and post on SBA website as a bellwether of our progress.

The Finance Sub-Committee proposes two recommendations, which would provide meaningful assistance to the veteran-owned small business community:

1. The SBA webpage for the Office of Veterans Business Development should be revised to make it readily identifiable and easy to access from the Agency's Home Page. In addition, the OVBD Home Page should be revised to bring together critical small business information for Veterans in a single, focused location. This webpage could also afford the opportunity

for VSO participation at no cost, through links to other quality web pages.

2. Change Section 7(j) of the Small Business Act to include Veteran Owned Companies.

The Reserve & Guard Entrepreneurship Sub-Committee proposes one recommendation, which would provide meaningful assistance to the veteran-owned small business community:

1. Recommend authorization of a business tax forbearance, which would allow the selected category of duty status military member to deposit their estimated federal business tax liability payments into an interest bearing trust account, thus authorizing tax forbearance for a period of time equal to the amount of active duty time performed plus 180 days. This forbearance would begin upon the effective date of the service member's orders and all tax obligations are to be satisfied in full no later than 180 days following the termination of such orders.

Recommendations of the Procurement Sub-Committee

The Procurement Sub-Committee's mission was to research and provide recommendations and guidance on the needs of veteran-owned small business concerns seeking to successfully participate in federal and private procurement. This sub-committee was further tasked to include the areas of training and education. The following recommendations are submitted for SBA policy considerations.

1. Surety Bonding

Surety bonding for service-disabled veteran-owned small businesses [SDVOSB] presents multiple problems. First, the surety bonding levels currently guaranteed by the SBA are grossly inadequate for today's federal construction environment. Secondly, SDVOSB owners have difficulty preparing their business to withstand the scrutiny of the surety bonding process. Both of these issues were validated by testimony of the Army Corps of Engineers and veteran small business owners associated with Katrina restoration.

- Point 1: To participate successfully, the SDVOSB needs to be ready when contract opportunities become available. Bonding is an area where the small business needs to be aware and knowledgeable of the bonding requirements of the SBA and of the surety companies. In the past, SDVOSB were not awarded contracts due to their inability to obtain adequate bonding.

In addition, the SBA needs to get finance and bonding professionals directly involved with the building and planning stage of Veteran Small Business Financing programs, to support and promote Veterans Small Business Interests. The lending and bonding institutions responsible for developing "suggestions", "incentives", "programs" and other work on behalf of veterans will then share a personal and professional stake in the success of the program thus giving the programs "top down" emphasis.

- Point 2: The current FAR policy on bonding is found at FAR 28.1. It states that three types of Bond are required when a construction project exceeds 100K. Bid Bonds are covered in FAR 28.101, Performance Bonds in FAR 28.102-1 and Payment Bonds in FAR 28.102-1. A Contracting Officer may waive a Bid Bond, FAR 28.101-1c when Performance and Payment Bonds are required. This is only done when it is determined to be in the best interest of the government. It is not done often with the exceptions being sole source or overseas work. The Performance and Payment Bonds are 100% of the original contract. The Contracting Officer may reduce the 100% coverage if a lesser amount is deemed adequate per FAR 28.102-2(b). The FAR requires 100% coverage by the prime contractor regardless of the bonding capability of

the major sub-contractors. There are no provisions for “multiple bonding” in the FAR. According to a presentation to the Committee by an engineer with the Army Corps of Engineers (CoE), most Service-Disabled Veteran-Owned Businesses can not provide 100% coverage for the average CoE construction project.

- Point 3: The SBA Surety Bond Guarantee Program covers four types of major contract surety bonds and currently cannot exceed \$2,000,000 for small businesses. The SBA surety bond process has two programs: The Prior Approval Program, where the SBA guarantees 80 or 90 percent of the surety’s loss and participating sureties must obtain SBA prior approval for each bond and The Preferred Surety Bond Program, where selected sureties receive a 70 percent guarantee and are authorized to issue, monitor and service bonds without SBA prior approval. According to testimony from the Surety Association of America (SAA), the SBA’s \$2,000,000 amount is inadequate for today’s construction contracts.

Recommendations: First, to improve and correct this competitive disadvantage for the SDVOSB, we recommend that the current bonding limits for the SBA Surety Bond Guarantee Program should be revised upward to \$15,000,000 (according to need) for all small businesses. Review and consider implementation of a “shared-bonding” approach for all small businesses or allow bonding capacity commensurate with standard commercial bonding practices, which would significantly reduce the bonding burden of the small veteran business owner. Ultimately, these improvements would serve to enhance the competitiveness of the SDVOSB in today’s construction environment. Second, the SBA should establish an outreach and education program for all SDVOSBs whose primary NAICS code is construction related. The education and outreach program would focus on educating the SDVOSB how to position their company to overcome obstacles that may preclude or inhibit the concern from either obtaining a bond or obtaining it in a timely manner. The Administrator of the SBA should instruct each Region to require their districts to assemble SBA sponsored Veterans Small Business Finance and Lending Advisory Councils consisting of a consortium of commercial lenders, bonding agents and Veteran Business Owners for the purpose of;

1. Reviewing, coordinating, and monitoring plans and programs developed in the public and private sectors that affect the ability of small business concerns owned and controlled by veterans to obtain capital, credit and bond surety.
2. Promoting the collection of business information and survey data as they relate to veterans and small business concerns owned and controlled by veterans regarding small business financing and bonding ability.
3. Developing and promoting initiatives, policies, programs, and plans designed to foster small business financing and bonding programs specifically for small businesses owned and controlled by veterans.

2. Certification for Service-Disabled Veteran-Owned Small Businesses [SDVOSB]

The SBA Office of Veterans Business Development should take appropriate steps to establish a Certification Program for small businesses owned and controlled by Service-Disabled Veteran-Owned Small Businesses. Establishing a SDVOSB Certification Program would increase credibility and status to the procurement goals recommended in Executive Order 13360, reduce eligibility related questions pertaining to a concern's eligibility for SDVOSB procurement set-asides, and would make it clear to prospective program participants, which owners are eligible to receive this designation.

- Point 1: There are no standards currently in place to satisfy procurement officer's validation needs. Questions are routine and abundant in requesting information from the SBA about SDVOSB Certification. Small business owners are told by contracting officers that they must "provide" their SDVOSB certification. In turn, the small business owner routinely makes requests of the SBA regarding the SDVOSB certification and certification process, only to be told that the small business "self-certifies." The small business owner is looking for and sometimes expected to provide a document that designates certification, when in fact, such a document and formal certification process does not exist. Additional clarification and guidance, once developed, should be posted on the SBA website and linked to CCR, VETBIZOPS, FEDBIZOPS and other interested procurement activities. This would provide detailed guidance about the SDVOSB Certification Program, as well as, access to any required forms needed by interested small businesses.
- Point 2: Currently, SDVOSB is a self certifying status. Establishing a federally regulated and mandated certification process for SDVOSB would provide an equal measure with similar programs, i.e., the 8(a) program and HUBZONE. It would also provide parity for the SDVOSB in the acquisition and business community. The certification process contemplated by the sub-committee is not onerous, but establishes minimal criteria and data required to validate the SDVOSB status. For instance,
 - One document would be a certified copy of the service members D.D. Form 214, which documents military service.
 - The SBA should also require adjudication documents from the Department of Veteran Affairs to substantiate status as a service-connected disabled veteran, as, or if adjudicated by DVA.
 - To validate ownership and control of the small business, SBA could establish a self directed training program designed to inform and ensure that a SDVOSB would have their articles of incorporation, business filings with the respective county or state where the

business operates, or other relevant legal documents necessary to substantiate ownership and control, in preparation for the event that they are a successful bidder on a contract, and their status is challenged.

- For purposes of procurement eligibility, the owner would need to provide its primary NAICS code information.
- Once certified as having gone through the training programs, and they are now prepared for the challenge, the SDVOSB should be a permanent designation unless percentage of ownership or some other status changes.
- Certification status could be connected to and listed in the 'Small Business Type' section of the CCR. This information is provided by the SBA and cannot be edited by the vendor.

Recommendation: Accordingly, the SBA should immediately proceed during the first quarter of FY 2007 with promulgating regulations for comment and inclusion in 13CFR, which will establish a Certification Program for small businesses owned by service-disabled no later than May 28, 2007. The SBA would then follow-up with appropriate standard operating procedures for the program.

3. Change to Sole Source Contracting Methods

Three years since PL 108-183, testimony and evidence to the Committee indicates service-disabled veteran-owned small businesses [SBVOSB] do not receive equal consideration for procurement awards. This disparity occurs for a variety of reasons. For instance, contracting officers are not aware of the increasing number of qualified SDVOSB's and their capabilities. It is also easier for a contracting officer to award sole source contracts to an 8(a) concern over a SDVOSB. For sole source contracts, DVOSB businesses must follow the "Rule of Two" which is not a requirement in the 8(a) program. In order to afford the SDVOSB with equal access to available procurement opportunities impediments need to be identified and eliminated.

- Point 1: Currently, there are three different sole source contracting methods and the method is directly dependant upon program designation. For instance, the 8(a) Program is covered in FAR 19.8 and 13 CFR 124, The HUBZONE Program is covered in FAR 19.13 and 13 CFR 126 and SDVOSB is covered in FAR 19.14 and 13 CFR 125. Within these regulations, the Contracting Officer is afforded ample flexibility and latitude in awarding sole source contracts pursuant to the 8(a) Program. Guidance in 13 CFR 124.508 states the business only has to be an active participant in the 8(a) Program. While 13 CFR 125.18,19 & 20 and 126.612 are much more restrictive for SDVOSB and HUBZONE requiring them to meet specific criteria. Contracting Officers tend to take the path of least resistance and as a result award the majority of contracts to 8(a) certified businesses.

- Point 2: In the long term, the SBA must help the SDVOSB community educate the Agency senior procuring management as to the availability of SDVOSB's, their qualifications, their availability, and their performance record. However, in the short term, results may be achieved and realized more quickly through regulatory revisions. The availability of sole source awards in other programs, i.e., The 8(a) Program, provides these small businesses with a procurement advantage over the SDVOSB. If the SBA were to adopt regulatory language similar to that available for 8(a) concerns, this would serve to provide a measure of procurement parity for these affected small businesses. This correction should be relatively easy to implement by adopting existing 8(a) regulatory language and including it as a revision to 13CFR Part 125.

Recommendation: To provide parity among "special emphasis procurement programs" we recommend that the SBA take immediate, appropriate steps to promulgate regulations to revise 13 CFR 125.20. The proposed revision would eliminate existing restrictions on the award of sole source contracts to SDVOSB such as the "Rule of Two". The change should mirror 13 CFR 124.508(c), which applies to 8(a) Program participants and states "...In order to be eligible to receive a sole source 8(a) contract, a firm must be a current participant on the date of the award...." Accordingly, adopting this language would eliminate all restrictions on sole source awards to SDVOSBs. We request these actions be initiated within the first FY Quarter by the Administrator of the SBA.

4. Changing "May" to "Shall"

The Service-Disable Veteran-Owned Small Business Contracting Assistance Program was designed for Americans who served their country, regardless of sex or race. The only distinction was the veteran received injuries while in service to their country. To create parity with the 8(a), and HubZone Programs procurement regulations need to be changed to reflect "shall" instead of "may" where appropriate.

- Point 1: Public Law 180-183 Section 36 uses the word "may" in referring to actions concerning SDVOSBs on sole source contracts. That same language was carried over into the FAR which is the contracting Officer's directive. Most veterans believe this to be a mistake in the intent of the law. Using "may" instead of "shall", gives the Contracting Officer an easy opportunity to do business as usual. It also creates a perception that SDVOSBs are not as good as 8(a) businesses. This issue has already been broached in Federal Acquisition Circular 2005-02, 48 CFR dated March 23, 2005. A change in language request for 48 CFR 19.1405 that the words 'shall set-aside' be used in every place that 'may set-aside' appears was not accepted. The ruling states "The FAR rule implements Public Law 108-183, 15 U.S.C. 657f as written. The statute established a discretionary, not mandatory, set-aside authority for SDVOSBs."

- Point 2: Legislative action is required to correct this disparity affecting veteran owned small businesses.. Public Law 108-183 must be amended by Congress. As such, the true intent of Congress will be reflected. This is a systemic issue recognized and supported by all Veteran Organizations and would be a significant step toward “leveling the Federal procurement playing field.”

Recommendation: the SBA Advisory Committee on Veteran Business Affairs recommends that a letter should be sent no later than December 1, 2006 from the SBA Administrator to the original authors of Public Law 108-183. The letter will request an amendment to Public Law 108-183 to reflect the true intent of the Veterans Benefit Act of 2003. Such legislative action will permit subsequent regulatory changes to FAR.

5. Incorporate Executive Order 13360 into SBA Regulations and Standard Operating Procedures

The SBA needs to reemphasize implementation of Executive Order 13360 and establish it as a Federal procurement priority across the entire Federal sector. Federal agencies need to be held accountable, by the SBA, for their progress in implementing Executive Order 13360 and their progress toward the 3 percent goal. The SBA needs to establish a means to monitor agencies’ progress and, where appropriate, establish a vehicle to report or otherwise identify those that are not in compliance, and pursue ongoing follow-up. Perceived or real lack of action on the part of SBA in its role pursuant to the Executive Order could prove embarrassing and difficult to explain if challenged.

- Point 1: On October 20, 2004, President Bush signed Executive Order 13360 to increase federal contracting and subcontracting opportunities for service-disabled veteran-owned small businesses. On January 12, 2005, the Administrator for the Office of Federal Procurement Policy and the Administrator for the Small Business Administration provided guidance to assist agencies prepare their strategies for implementation.
- Point 2: The guidance contained in Executive Order 13360 calls for “Agency-designated officials, as well as agency chief acquisition officers and small business directors be evaluated by the results they demonstrate.” cursory review of the SBA report on Federal procurement for SDVOSB demonstrates that much work is needed to achieve the President’s procurement goal of 3 percent to SDVOSB’s. It is fair to say that the SBA, as well as, many other Federal agencies has failed to achieve or make meaningful progress toward the President’s goal. In fact, some agencies appear to have completely ignored the Executive Order.

Point 3: To emphasize the need for improvement in procurement for service-disabled veteran-owned small businesses, we offer procurement statistics from FY2004 and FY2005:

Federal Procurement Data System Federal Contracts & Dollars Actions Reported on SF279 and SF 281			
	FY 2004	FY 2005	% Increase/Decrease
Number of Actions	9,965,306	5,584,944	-43.96%
All Dollars	\$299,886,097,753	\$314,002,424,176	4.71%
Small Business Actions	4,358,031	2,302,698	-47.16%
Small Business (\$000)	\$69,228,771,571	\$79,624,883,437	15.02%
Small Business % (\$)	23.09%	25.36%	2.27%
Veteran-Owned Small Business Actions	642,555	675,851	5.18%
Veteran-Owned Small Business (\$000)	\$4,661,794,713	\$6,587,653,251	41.31%
Veteran-Owned Small Business % small business (\$)	6.73%	8.27%	1.54%
Service-Disabled Veteran-Owned Small Business Actions	29,118	40,659	39.64%
Service-Disabled Veteran-Owned Small Business (\$000)	\$1,148,647,588	\$1,899,148,262	65.34%
Service-Disabled Veteran-Owned Small Business % (\$000)	1.66%	2.39%	0.73%

- Point 4: Agencies were directed to submit their plans no later than February 7, 2005 with subsequent reporting guidance to be provided by SBA. In testimony before the Committee, Department of Energy (DOE) officials stated they could not find qualified SDVOSBs possessing the technical skills they required. Therefore, they could not award contracts to SDVOSBs. To further our due diligence, we received presentations from Department of Veteran Affairs, Army Corps of Engineers, Department of the Army and Department of Homeland Security on their on-going efforts to implement Executive Order 13360. The Acting Chief of Procurement for the Department of Homeland Security sent out guidance to the heads of all major buying activities on how they should approach implementation. This directive can serve as a template for other executive agencies that have reported difficulty in developing and implementing their plan and related strategies to achieve this goal.

Recommendation: To achieve the SDVOSB procurement goal contained in Executive Order 13360, the SBA must identify all agencies affected by the Executive Order under the directive of Congress. Then the SBA should assist these agencies develop a demonstrable, measured strategic plan and establish realistic reporting criteria. Once the information is received, disseminate this data to all agencies, Veteran Organizations and post on SBA website as a bellwether of program progress. The criticality of this requirement demands immediate attention but certainly no later than January 2007.

Recommendations of the Finance Sub-Committee

The Finance Sub-Committee was originally tasked to research and identify ways and means to support veterans in gaining access to capital and identify the needs of veteran-owned small business concerns seeking to establish, expand and grow their business. The sub-committee was further tasked to examine areas for SBA assistance that included new start-up businesses; support for existing businesses upon the owner's return from deployment; and the creation of new roads for economic and community growth through social, economic, and business development programs. The following recommendations are submitted for SBA policy and program considerations.

1. Improvements Needed in the SBA Webpage for Veterans

The subcommittee focused on the tools available to the veteran to research capital and assistance programs available to him/her. Upon examination of the SBA Veterans Business Development Webpage located on the primary SBA website, an informal (no-cost) survey was made of advisory panel members' participation, Veteran Service Organizations and solicited from Veteran Small Business Owners at large. This survey was conducted primarily by the sub-committee chair by direct and electronic means to gain insight into the usability and accessibility of the SBA Veterans Business Development Webpage.

- Point 1: Results of the survey provided the following information about the webpage as a resource for Veteran Business development and growth:
 1. The webpage was not readily identifiable as a resource to Veterans interested in starting a business or for those in need of access to capital or technical assistance.
 2. Inadequate use of links within the SBA domain – specifically to loan programs.
 3. No information for loan programs with flags/symbols, or other reminders of advantages to Veterans
 4. No links from other SBA web pages to the Veterans Business Development webpage.
 5. Did not provide ready access to Central Contractor Registration (CCR) and there was not an explanation of the advantage to registration in CCR, or requirement to register in CCR prior to attempting to do business with the Federal government.
 6. No question and answer on topics specific to Veteran business owners.
 7. Indiscriminate changes made to the webpage without notification to the Veterans Business Development program manager or staff.
 8. No introduction of the Advisory Committee on Veterans Business Affairs or of individual Committee members on the webpage.

- Point 2: The SBA Veterans Business Development webpage has the potential to bring together critical information for Veterans in a single, focused location for SBA. This webpage also affords the opportunity for VSO (Veteran Service Organization) participation at no cost, through links to other quality web pages or web sites.
- Point 3: While conducting the survey, we found that most Veteran small business owners without prior contractor business experience were not aware of the CCR registration requirement. Of those who were aware of the registration requirement, but did not do business directly for Department of Defense, they were unaware of the advantages to registering in CCR.
- Point 4: The sub-committee made inquiries to the SBA, requested and held a meeting with the SBA Associate Administrator for Communication and Public Liaison, the responsible program manager for webpage development and content management. The Committee expressed its concerns to the Associate Administrator and to his technical staff responsible for routine web management concerning the need to quickly overhaul the SBA webpage for Veterans Business Development.

Recommendation: The Finance Subcommittee can report some progress with the webpage developer to identify the listed survey results and express concern about the needs of Veterans developing and growing business. While the response was positive, actions and initiatives have been very slow to develop. However, recognizing the entire SBA website is undergoing a major redesign, we strongly recommend that OVBD focus on implementing, at a minimum, the eight survey areas identified by the sub-committee immediately.

2. Inclusion of Veteran Owned Companies to Section 7 (j) of the Small Business Act

The Committee recognizes that the mission of the U.S. Small Business Administration, Office of Business Development (BD) is to assist economically and socially disadvantaged businesspersons achieve competitive viability in the marketplace. To that end, SBA has been authorized, under Section 7(j) of the Small Business Act, to enter into grants, cooperative agreements or contracts, with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance under the Act. This assistance is delivered through the 7(j) Management and Technical Assistance Program to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low-income or firms owned by low-income individuals. Our research has identified that veteran owned businesses are not qualified under this regulation and therefore are ineligible to participate in Section 7j.

- Point 1: Congress has stated that the United States has done too little to assist veterans, particularly service-disabled veterans, in playing a greater role in the economy of the United States by forming and expanding small business enterprises.
- Point 2: Congress has also stated within PL 106-50. “Veterans Entrepreneurship and Small Business Development Act of 1999” that the United States must provide additional assistance and support to veterans to better equip them to form and expand small business enterprises, thereby enabling them to realize the American dream that they fought to protect.
- Point 3: Our conclusion is that the Small Business Act of 1953 is a proper vehicle to mainstream veteran owned businesses as prior, socially disadvantaged economic groups. Under this Act, it is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise and to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government be placed with small-business enterprises.

Recommendation

We strongly recommend that a draft resolution for amendment to U.S. Small Business Act of 1953, Section 7 (j), to include “Veterans” and “Veteran Owned or Operated” be developed within the SBA Veteran Advisory Group and submitted to the Small Business Committee’s of Congress by January 15, 2007 for consideration and action.

Recommendations of the Guard and Reserve Sub-Committee

The Guard and Reserve Entrepreneurship Sub-Committee was originally tasked to research and provide recommendations and guidance on the needs of small business concerns owned and operated by members of either the National Guard or a Military Reserve Component. This group of individuals may or may not be veterans, but are faced with huge financial burdens when they are deployed to active duty.

- Point 1: Concerns were expressed to this Committee by representatives of the Guard and Reserve, that sustainability of certain critical skill sets contained in the Reserve Components, such as medical, legal, transportation, engineering and construction are negatively impacting the small active duty veteran. We have been apprised of the historic rates of activations, coupled with the transformation of the Guards and Reserves from a “strategic” to an “operational” force for the Global War on Terror.

We question whether the Reserves can sustain critical skills in their units that most reservists accrue in their self employment/small business owner capacity, if those activations cause such fiscal, market or operational damage so as to endanger the reservists small businesses ability to sustain operations while the owner reservist is activated, and can the owner/reservist overcome lost markets that may occur while the owner is activated?

- Point 2: The Committee is aware that our primary Allies in the Global War on Terror, the United Kingdom and Australia have instituted significant programs designed to minimize the financial disruption of the operations of small businesses owned by activated reservists for the Global War on Terror.

Recommendation: Given the nature of the expected “Long” Global War on Terror, we recommend that the US investigate our allies programs for tax forbearance applicability and affordability for application to the 6 to 7% of American reservists thought to be self employed small business owners, who presently volunteer for service in the Reserve Components of the U.S. Military.

We propose a tax forbearance initiative to protect Veteran Business owners who become activated pursuant to military orders IAW Section 101 Title 10 United States Code from Business Tax Liability, which may result in extreme financial hardship on the business and the veteran.

Authorizing a business tax forbearance initiative would allow the military member to deposit their estimated federal business tax liability payments into an interest bearing trust account, thus authorizing tax forbearance for a period of time equal to the amount of active duty time performed plus 180 days. The forbearance would begin on the effective date of the service member’s orders and all tax obligations would be satisfied in full no later than 180 days following the termination of such orders. We discussed and considered the following constructs as a possible structure:

Interest – Any and all interest realized from the deposits of this program are to be retained by the reservist-owned corporation and will not be considered capital gains or profit and should subsequently be tax exempt. The maximum allowable deposits subject to this protection shall not exceed 2 times the actual tax liability. Any deposits enjoying interest in excess of 2 times the finally established tax liability will be subject to standard taxation IAW the corporation’s tax burden. We determined that twice the tax burden was appropriate for two reasons: 1) businesses pay an estimated tax based on sales forecasts and 2) to provide businesses in this category an incentive to establish a savings that will help to revitalize the business when they return to the business, following de-mobilization.

Failure – Failure to satisfy the existing tax obligation by the end of the 180th day following the return of the business owner would result in the businesses being subject to the standard interest and penalties subject any business who fails to satisfy its tax obligation. The date that such interest and penalties will be assessed will be the 181st day following the termination of the duty orders to which the member entered this forbearance.

Multiple and concurrent assignments – Each period of active duty will be treated as separate and independent actions if separated by more than three duty days, which will require further definition. This is important because in an effort to maximize training funds, a military unit may issue a consecutive series of active duty orders for 5 day periods to be paid for from one accounting method and pay the military member for the weekends using another payment account, which does not necessarily require active duty orders. Further, home station active duty may be restricted to 5 day increments, again due to budget considerations. At no time will a guard or reserve unit create or extend active duty requirements for the sole purpose of qualifying a business owner for participation in this program.

[End]
